Managing the modern office

9. Taking care with the Balanced Scorecard Approach

Performance measurement systems have traditionally been based on financial indicators, such as profitability or growth. However, there can be a number of drawbacks to this approach. In this latest article in the Office Management series, **Mike Keen** and **Carl Evans** look at an alternative system.

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Financial measures alone do not always assess and measure the parts of the organisation that create customer value and, in turn, deliver profit. In addition, financial plans are difficult to communicate throughout the organisation in a way that everyone can understand. Perhaps, most significantly, they tend to be focused on alerting management when things go wrong – more of a historical record, rather than an actual indicator or 'early warning system'.

As a consequence, Kaplan and Norton (1992) devised the Balanced Scorecard to provide managers with a blend of financial and non-financial business performance metrics. Slack et al (2010, p.609) explain that the Balanced Scorecard permits managers to examine organisational performance from four key perspectives.

The Balanced Scorecard: Four Key Perspectives

1. How do our customers perceive us? (The customer perspective)
2. What must we excel at? (The internal perspective)
3. How can we improve and add value in our activities? (The innovation and learning perspective)
4. How do we look to our shareholders? (This is the usual financial perspective)

The advantage of using a Balanced Scorecard approach is that it gives a fuller picture as to whether the organisation is meeting its objectives. For example, while it may seem that a company is currently doing well financially, it may be that customer satisfaction is falling, or that operations processes are becoming dated. If falling customer satisfaction is not corrected, then business may be eventually lost to competitors, resulting in a worsening financial position in the long-term.

Checking the overall health of business objectives

Consequently, the Balanced Scorecard approach allows stakeholders to determine the overall health of short, medium and long-term objectives. Moreover, it ensures that any strategic action implemented matches the desired outcomes.

For example, it allows stakeholders to ask themselves if raising the selling price of a product will help the bottom line of the company in the long run? It might, if the customer is satisfied with that product, or if processes involved in creating it lead to it being of a higher quality.

The Balanced Scorecard, therefore, is best used as a business performance 'dashboard summary' which encapsulates the performance metrics that are most appropriate to the stakeholders concerned. It is also a means of keeping employees focused on improvement.

Yet, despite the clear benefits, some managers mistakenly fall into the trap of thinking that it is a panacea for all problems and obstacles, rather than using it to support, guide and drive improved performance. As a result, there are a number of factors that managers need to take into account when implementing a Balanced Scorecard approach:

- The Balanced Scorecard is not a tool that can be implemented quickly
- It can't provide a fast response to a specific problem
- It takes forethought and careful preparation. Managers need to hold a series of meetings to assess what goals and objectives the company should set in each of the four perspectives
- Once the objectives have been clearly stated, it is then important to determine an appropriate strategy for making them come to fruition. There needs to be a robust link between measures and desired outcomes
- The use of a Balanced Scorecard is only effective when an organisation has a comprehensive strategy to drive it; it does not substitute for strategic vision

While De Geuser et al (2009) find that the Balanced Scorecard approach improves the integration of management processes and empowers staff, De Busk and Crabtree (2006) feel that many Balanced Scorecard implementations fail because it is often difficult for employees to know what to do to actually improve performance. As a result, Woods and Grubnic (2008) advocate that it is the involvement of staff that helps acceptance of the approach and that this should be supported with effective two-way communication. It is vital to take time here to generate leadership consensus around a set of metrics and processes in order to ensure commitment from staff and management, since a lack of engagement or aligned behaviour can result. In addition, staff should be freed from central control and encouraged to develop their own local business objectives and related measures.

Keep it flexible

As management thinking around the use of the Balanced Scorecard has developed, it has become more widespread in application and isn't restricted just to manufacturing. However, many organisations use metrics that are not applicable to their own situation, or which do not have sufficient engagement from their stakeholders. It is important that the Balanced Scorecard is adapted to meet individual corporate objectives (Sioncke, 2005) and not just rigidly applied using the original Kaplan and Norton (1992) template.

Likierman (2006) warns against too many measures which could cause confusion among staff, with the ultimate consequence that something important may be overlooked, or even ignored, in the bustle of day-to-day business operations. Additionally, 'stretch' targets are fine, but organisations need to honestly and candidly understand their competency profile.

Keep it simple

Do not be a slave to updating fancy, multi-coloured wall charts in your meeting rooms. The extra time needed to build a paper-based scorecard can actually demotivate staff. Therefore, keep it simple and as electronically accessible as possible, not only for staff to build the scorecard, but also to make it easy for them to 'drill-down' and ascertain the true causes of adverse or positive performance shown by the measures.

Scorecards are successful largely due to the type of metrics being measured, so selecting the correct metrics in the first instance will help to drive the right type of behaviours. Those metrics really should represent what the stakeholders want to see, and successful achievement of them will lead to stakeholder satisfaction. Moreover, the metrics need to be straightforward and unambiguous to help understanding and support ease of monitoring.

The Balanced Scorecard approach certainly has significant management appeal since it collates current and future targeted business performance into a single summary document and, at the same time, enables stakeholders to view potentially conflicting metrics side-by-side.

However, while the Balanced Scorecard gives an overall view of the four areas (perspectives), these do not 'paint the whole picture'. Instead, the Balanced Scorecard must be part of a bigger strategy for growth. It should therefore be viewed as the 'tip of the improvement iceberg' that is underpinned by a range of bespoke continuous improvement activities. Look on it as a catalyst and as a platform for learning and organisational improvement.

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